

**DEPARTMENT OF HEALTH SERVICES**

1800 3<sup>rd</sup> STREET, ROOM 100  
P.O. BOX 942732  
SACRAMENTO, CA 94234-7320  
(916) 322-1086



CMSP Letter No.: 00-8  
Issue Date: December 13, 2000

**TO** All County Medical Services Program (CMSP)  
County Welfare Directors

**SUBJECT:** Clarification of Net Profit from Self-Employment

The purpose of this letter is to transmit recent clarifications to the methodology for determining net profit from self-employment. On December 7, 2000, the CMSP Governing Board voted to clarify the method of determining net profit from self-employment.

CMSP's policy for determining net profit from self-employment, Section 8-012 of the CMSP Eligibility Manual, will be as follows:

- (a) The net profit from self-employment shall be an estimation of the annual net income for the current year, based on the federal tax return filed for the previous year as limited by (c).
- (b) If there is no tax return for the previous year, or there is evidence that using the tax return would give an inaccurate estimation of income, the county department shall use current business records. In this circumstance, net profit shall be determined in accordance with (d) and (e).
- (c) The following expenses, when used to determine annual net income on the federal tax return, shall not be deducted:
  - (1) Entertainment costs.
  - (2) Depreciation.
  - (3) Purchase of capital equipment expenditures.
  - (4) Payments on the principal of loans for capital assets or durable goods.
- (d) Net profit of a self-employed person shall be determined by subtracting from the gross business income expenses which are directly related to the production of goods or services and without which the goods or services could not be produced. Such expenses include, but are not limited to:

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- (1) Transportation costs to call upon customers or deliver goods.
- (2) Payments of the interest of loans for capital assets or durable goods.
- (3) Payments for rental of space or equipment.
- (4) Wages and other benefits paid to employees.
- (5) Material and supply costs.
- (6) Maintenance and repair costs.

(e) Personal expenses such as income tax payments, lunches, and transportation to and from work are not classified as business expenses and shall not be deducted.

Effective February 1, 2001, counties will use this method to determine net profit from self-employment.

Enclosed with this letter are the CMSP Eligibility Manual replacement pages which reflect these clarifications:

Filing Instructions

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If you have any questions concerning these clarifications, please direct them to Ms. Tina Thomas, in the CMSP Unit, at (916) 327-4842.

  
Nancy Hayward, Chief  
Medically Indigent Services Section

Enclosures

cc: See next page.  
cc: Ms. Tina Thomas  
County Medical Services Program  
Department of Health Services  
1800 3<sup>rd</sup> Street, Room 100  
P.O. Box 942732  
Sacramento, CA 94234-7320

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## CMSP ELIGIBILITY MANUAL

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Income received for having provided IHSS services.

- (i) Net income from real or personal property as determined in accordance with Section 8-014 which is the result of continuous and appreciable effort on the part of the applicant or beneficiary. This includes income from:
  - (1) Room and board.
  - (2) The rental of rooms which requires daily effort on the part of the applicant or beneficiary.
  - (3) A business enterprise.
  - (4) The sale of produce, livestock, poultry, dairy products and other similar items.
- (j) Earnings from public service employment.

Actual Earned Income Tax Credit (EITC) payment received for a taxable year and received as a tax refund or as an advance payment.
- (l) Tips actually received for the performance of work activities, notwithstanding the amount calculated by the employer for tax withholding purposes.

### 8-012. Net Profit from Self-Employment

CMSP's policy for determining net profit from self-employment, Section 8-012 of the CMSP Eligibility Manual, will be as follows:

- (a) The net profit from self-employment shall be an estimation of the annual net income for the current year, based on the federal tax return filed for the previous year as limited by (c).

If there is no tax return for the previous year, or there is evidence that using the tax return would give an inaccurate estimation of income, the county department shall use current business records. In this circumstance, net profit shall be determined in accordance with (d) and (e).

## CMSP ELIGIBILITY MANUAL

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- (c) The following expenses, when used to determine annual net income on the federal tax return, shall not be deducted:

Entertainment costs.

Depreciation.

Purchase of capital equipment expenditures.

Payments on the principal of loans for capital assets or durable goods.

- (d) Net profit of a self-employed person shall be determined by subtracting from the gross business income expenses which are directly related to the production of goods or services and without which the goods or services could not be produced. Such expenses include, but are not limited to:

Transportation costs to call upon customers or deliver goods.

Payments of the interest of loans for capital assets or durable goods.

Payments for rental of space or equipment.

Wages and other benefits paid to employees.

Material and supply costs.

Maintenance and repair costs.

- (e) Personal expenses such as income tax payments, lunches, and transportation to and from work are not classified as business expenses and shall not be deducted.

### 8-013. Gross Unearned Income

Gross unearned income includes:

- (a) Old Age, Survivors and Disability Insurance (OASDI) payments from the Social Security Administration.

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## CMSP ELIGIBILITY MANUAL

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Annuities, which are sums paid yearly or at other specific intervals in return for payments of a fixed sum by the annuitant.

Pensions.

Retirement payments.

Disability payments from an employer or insurance except for State Disability Insurance benefits considered to be earned income under Section 8-011.

(f) Veteran's payments which include:

- (1) Pensions based on need.
- (2) Compensation payments.
- (3) Educational assistance.

(g) Worker's compensation, except for any amount determined to be unavailable in accordance with Section 8-018 or for Temporary Workers Compensation payments considered to be earned income under Section 8-011.

Railroad retirement or any other payments made by the Railroad Retirement Board.

(i) Unemployment Insurance Benefits.

(j) Proceeds from a life insurance policy which are in excess of the lesser of:

- (1) \$1,500.
- (2) The amount expended on the insured person's last illness and burial expenses.

(k) Other insurance payments.

(l) Loans which do not require repayment.